

# **Audit Report**

## **Alfred Nzo District Municipality**

For the Year ended 30 June 2004





AUDITOR - GENERAL  
SOUTH AFRICA

The accounting officer  
Alfred Nzo District Municipality  
Private Bag X511  
Mount Ayliff  
4730

30 November 2011

Reference: 00795REG1011

Dear Sir

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Alfred Nzo District Municipality for the year ended 30 June 2011**

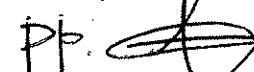
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) (municipality) you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature Auditor-General in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Yours sincerely



Sandile Hlatshwayo  
Senior Manager: Eastern Cape

Enquiries: Sandile Hlatshwayo  
Telephone: (043) 709 7200  
Fax: (043) 709 7300  
Email: [sandileh@agsa.co.za](mailto:sandileh@agsa.co.za)

# **REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON ALFRED NZO DISTRICT MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I was engaged to audit the accompanying consolidated and separate financial statements of the Alfred Nzo District Municipality, which comprise the consolidated and separate statement of financial position as at 30 June 2011, the consolidated and separate statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages x to x.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), as well as for such internal control as management determines necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the consolidated and separate financial statements based on conducting the audit in accordance with the International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis for disclaimer of opinion**

#### **Cash and cash equivalents**

4. The municipality could not provide sufficient appropriate audit evidence to support reconciling items totalling R0.4 million between cash and cash equivalents stated in the consolidated and separate statement of financial position and the cash at bank amount confirmed by the financial institution. Furthermore, journals amounting to R1.6 million were not supported by sufficient appropriate audit evidence. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and rights pertaining to cash and cash equivalents of R2.3 million (2010: R1 million), as disclosed in note 1.2 to the consolidated and separate financial statements.

## **Receivables**

5. As disclosed in note 2 to the consolidated and separate financial statements, material losses amounting to R16,5 million were incurred as a result of provision made for impairment of debtors during the year. This amount is understated by R8 million (2010: R2 million overstated). Consequently, accounts receivable were overstated by R8 million (2010: R2 million understated) and expenditure was understated by the same amount (2010: R2 million overstated). In addition, there were immaterial uncorrected understatements of R0,6 million and, consequently, receivables were understated by R0,6 million.
6. The municipality did not charge interest on overdue debtors accounts and as a result does not reflect interest revenue in the statement of financial performance, and did not initially recognise receivables at their fair values, as required by IAS 39 (International Accounting Standard 39: Financial Instruments: *Recognition and Measurement*). Consequently, interest earned on outstanding debtors, as shown in the statement of financial performance, was understated by R1,3 million (2010: R1,3 million), and it was not possible to determine what the subsequent accounting for any receivable recognised would have been. Consequently, sufficient appropriate evidence relating to the classification of this amount as an impairment or as a debtor could not be obtained.
7. The municipality could not provide sufficient appropriate audit evidence to support journals amounting to R12,6 million (2010: R6,1 million) and balances of R3,7 million. Furthermore, a debtor amounting to R3,3 million was raised relating to overspending on the grants but no sufficient appropriate audit evidence was provided to prove the existence of the debtor. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and rights to receivables of R16,3 million (2010: R14,9 million), as disclosed in note 2 to the consolidated and separate financial statements.

## **Trade and other payables from exchange transactions**

8. The municipality could not provide sufficient appropriate audit evidence to support journal entries amounting to R7,3 million credited to payables in the prior year. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and obligations pertaining to the comparative figure for trade and other payables from exchange transactions of R39,6 million included in note 12 to the consolidated and separate financial statements.

## **Unspent conditional grants**

9. Unspent conditional grants were transferred to revenue exclusive of VAT amounting to R1,1 million. In addition, an amount of R3,8 million relating to the municipal infrastructure grant (MIG) was transferred from unspent conditional grants to revenue before conditions were met. There are also immaterial uncorrected overstatements of R0,22 million and understatements of R0,18. Consequently the unspent conditional grants liability disclosed in note 11 to the consolidated and separate financial statements was understated by R2,7 million and revenue was overstated by the same amount.
10. An amount of R10,8 million relating to prior year revenue which should have been

recognised last year was transferred from unspent conditional grants to revenue in the current year. Consequently, accumulated surplus is understated and revenue is overstated by R10,8 million. Furthermore, the conditional grant amount of the prior year was overstated and revenue of the prior year was understated by R10,8 million.

11. There were also immaterial limitation misstatements of R0,6 million and consequently I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and obligations pertaining to R0,6 million.

### **Property, plant and equipment**

12. Assets amounting to R28,7 million, as disclosed in note 7, could not be traced to the asset register. In addition, infrastructure asset additions amounting to R3,8 million, as disclosed in note 7, were not supported by sufficient appropriate audit evidence. There were also immaterial limitation misstatements of R0,7 million. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and rights to property, plant and equipment (PPE) and the related disclosures of R778 million (2010: R787 million). Furthermore, assets amounting to R3,5 million, as disclosed in note 7, from OR Tambo District Municipality were included in the fixed assets in the current financial year instead of the coming financial year as the transfer of assets became effective on 1 July 2011. As a result, PPE and accumulated surplus were overstated by R3,5 million.
13. The PPE disclosure in note 7 for 2009-10 relating to additions is overstated by R37,7 million and the opening balance for 2009-10 is understated by the same amount as 2008-09 additions were recorded as 2009-10 additions. Furthermore, accumulated depreciation was understated by R1,2 million and PPE was overstated by the same amount as depreciation was not taken into account due to the error in the recording of the additions.
14. Corresponding figures for contract work-in-progress, as disclosed in note 7 to the consolidated and separate financial statements, are misstated due to missing invoices amounting to R31,4 million. Furthermore, the schedule submitted for audit for contract work-in-progress differs from the amount of contract work-in-progress disclosed in note 7 to the consolidated and separate financial statements by R22,1 million. There was also no sufficient appropriate audit evidence for assets under construction amounting to R2,1 million. There were no project files and other source documents to test for completeness of contract work-in-progress. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and rights to capital work-in-progress and the related disclosures of R349 million (2010: R220 million).
15. GRAP 17, paragraph .82 requires reconciliation of the carrying amount of PPE at the beginning and end of the period. The municipality has not disclosed the capital work-in-progress as per requirements of the standard as it had not disclosed the reconciliation of the carrying amount at the beginning and end of the period.

## **Inventories**

16. Water quantities used for valuation of water inventory amounting to R0.96 million (2010: R0.8 million), as disclosed in note 4, and water quantities used for valuation of water loss amounting to R2 million (2010: R0), as disclosed in note 32 to the consolidated and separate financial statements, could not be verified. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of water inventory. In addition, there are immaterial uncorrected understatements of R0,1 million and, consequently, inventory as disclosed in note 4 is understated by R0,1 million.

## **Taxes**

17. The municipality did not reconcile the general ledger and the VAT returns, with the result that no explanation was provided for the difference amounting to R8,5 million. There was also insufficient appropriate audit evidence to support the VAT opening balance written off amounting to R1,6 million and journals amounting to R1,4 million. Differences amounting to R10,5 million were also noted on recalculation of VAT receivable. Furthermore, there was insufficient appropriate audit evidence to support adjustments to original trial balance submitted for auditing amounting to R18,5 million. A creditor amounting to R2,1 million was also included in the VAT account, thus the overstatement of the VAT receivable amount.

18. As an alternative procedure, we performed reasonability testing of various VAT accounts in the trial balance and unexplained differences amounting to R13,4 million were identified. The municipality's accounting records did not permit the application of further alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and rights to the VAT receivable amount of R26 million (2010: R24,9 million), as disclosed in note 5 to the consolidated and separate financial statements.

## **Accumulated surplus**

19. The municipality did not provide the details and supporting documentation for correction of prior period errors amounting to R2,1 million, transactions relating to years prior to 2010 amounting to R5,7 million, and effective equity increase amounting to R4,1 million as disclosed in the consolidated and separate statement of changes in net assets. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of accumulated surplus of R1,1 billion (2010: R992 million), as disclosed in the consolidated and separate statement of changes in net assets.

20. An amount of R28,7 million is disclosed as a change in accounting policy in the consolidated and separate statement of changes in net assets. The amount was duplicated as it was included in the R1 billion disclosed, also as a change in accounting policy in the same consolidated and separate statement of changes in net assets.

21. The municipality has not adequately disclosed changes in accounting policy and correction of prior period errors as per requirements of GRAP 3 given the lack of detail and disclosure of the adjustments for each consolidated and separate financial statement line item affected.

### **Revenue**

22. An amount of R1,2 million was not billed to municipal customers as the municipality used incorrect estimated consumption for water service charges. In addition, there are immaterial uncorrected overstatements of R0,3 million and, consequently, service revenue and trade receivables from exchange transactions were understated by R0,9 million.
23. Rental income on plant hire amounting to R1,2 million was not recorded, with the result that revenue and receivables were understated by that amount. Furthermore, there was insufficient appropriate audit evidence to support interest received from SARS amounting to R5,3 million and journals amounting to R0,5 million. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence of revenue of R5,8 million.

### **Expenditure**

24. The municipality could not provide sufficient appropriate audit evidence to support expenditure totalling R14,3 million (2010: R4 million), journals amounting to R1,2 million and current year adjustments amounting to R16,2 million (2010: R2,3 million). The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, accuracy, classification and completeness of expenditure as disclosed in consolidated and separate statement of financial performance.
25. An amount of R1,9 million relating to VAT was included in expenditure disclosed in the statement of financial performance. The entity did not have adequate systems to record VAT, with the result that expenditure is overstated by R1,9 million and VAT receivable is understated by the same amount. In addition, expenditure relating to the prior year was incorrectly recorded in the current year, with the result that expenditure is overstated by R1,4 million (2010: R1,4 million understated) and accumulated surplus is understated by the same amount.
26. The municipality did not disclose the present value of estimated future cash flows of trade and other payables, taking into account the payment period and time value of money, as required by IAS 39: *Financial Instruments*, with the result that trade and other payables from exchange transactions were overstated by R1,7 million (2010: R1,8 million), expenditure was overstated by R3,3 million (2010: R3,2 million) and interest cost was understated by R1,6 million (2010: R1,6 million).

### **Employee cost**

27. An amount of R1,7 million was paid to fictitious employees. In addition, remuneration of councillors amounting to R1,1 million was incorrectly classified as employee cost. As a result, -related costs disclosed in statement of financial performance were overstated by R2,8 million, receivables were understated by R1,7 million and remuneration of councillors was understated by R1,1 million.
28. The municipality could not provide sufficient appropriate audit evidence for allowances amounting to R0,5 million and journals amounting to R0,8 million (2010: R1,9 million). The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, accuracy, classification and completeness of employee cost of R1,3 million.

29. The municipality did not raise an accrual for long-service awards. As a result, employee cost and payables were understated by R1,4 million.

### **Irregular expenditure**

30. Section 125(2) of the MFMA requires the financial statements of the municipality to disclose material irregular expenditure that occurred during the financial year. Audited payments amounting to R20,8 million were irregular as they were made in contravention of the supply chain management (SCM) requirements. These amounts were not included in the irregular expenditure disclosure note 33.3 to the consolidated and separate financial statements. Consequently, irregular expenditure as disclosed is understated by at least this amount. It was not possible, however, to determine the full extent of the understatement as not all the documents were submitted for testing and there was no system of control in place to identify all irregular expenditure incurred. In addition, although operators were contracted to maintain the municipality's water infrastructure, proper processes were not followed resulting in irregular expenditure amounting to R8,4 million. There are also immaterial uncorrected understatements of R0,4 million and consequently irregular expenditure is understated by R29,6 million.

### **Unauthorised expenditure**

31. Section 125(2) of the MFMA requires the financial statements of the municipality to disclose material unauthorised expenditure that had occurred during the financial year. Unauthorised expenditure of R13,1 million was incurred as a result of overspending on the votes. This unauthorised expenditure was not disclosed in note 33.1 to the consolidated and separate financial statements.

### **Commitments**

32. The municipality failed to submit for audit purposes the contract register and sufficient appropriate audit evidence to support commitments. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation of and obligations pertaining to commitments amounting to R71,1 million (2010: R181,2 million) as disclosed in note 35 to the consolidated and separate financial statements.

### **Contingent liability**

33. An amount of R2,5 million was not disclosed in contingent liabilities in the prior year consolidated and separate financial statements. This matter was not resolved in the current year and thus contingent liability of the prior year disclosed in note 37.1 was understated by R2,5 million.

### **Employee benefits**

34. The municipality did not provide us with sufficient appropriate audit evidence relating to adjustments of R1,5 million in the prior year figures. The municipality's accounting records did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness, valuation and allocation and rights and obligations pertaining to prior year employee benefits

amounting to R5,9 million, as disclosed in note 37 to the consolidated and separate financial statements.

35. Furthermore, the disclosures relating to employee benefits in note 37 were incorrectly classified between the various pension funds by an amount of R0,9 million.

#### **Disclaimer of opinion**

36. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

#### **Additional matter**

37. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### **Unaudited supplementary schedules**

38. The supplementary information set out on pages xx to xx does not form part of the consolidated and separate financial statements and is presented as additional information. We have not audited these schedules and, accordingly, we do not express an opinion thereon.

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### **PART C – REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, we include below our findings on the annual performance report as set out on pages xx to xx and material non-compliance with laws and regulations applicable to the municipality.

#### **Predetermined objectives**

##### **Presentation of information**

39. The following criteria are relevant to the findings below:

- Performance against predetermined objectives is reported using the National Treasury guidelines.

Audit findings:

##### **Measures taken to improve performance were not provided in the performance report**

40. Measures taken to improve performance were not provided in the performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). In total, 100% of the reported targets had no details of the measures taken to improve performance.

##### **Usefulness of information**

41. The following criteria are relevant to the findings below:

- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents

- Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets
- Measurability: Indicators are well defined and verifiable, and targets are specific and measurable

42. Audit findings:

**Reported objectives, indicators, targets are not consistent/complete when compared with the planned objective, indicators and targets (Consistency)**

43. Forty percent of the reported performance against predetermined objectives, indicators and targets is not consistent with the approved Service Delivery and Budget Implementation Plan (SDBIP).

**Planned objectives, indicators and targets are not relevant to the mandate and/or objectives of the entity (Relevance)**

44. The indicators and targets as per the SDBIP did not relate directly in more than 29% of instances to the institution's strategic goals and objectives as per the five year integrated development plan.

**Planned and reported targets are not specific and measurable (Measurability)**

For the selected development priorities and objectives,

45. Seventy-eight percent of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance;
46. Seventy-one percent of the planned and reported targets were not measurable in identifying the required performance;

**Planned and reported indicators are not well defined (Measurability)**

47. For the selected development priorities and objectives, 27% of the planned and reported indicators were not clear, as well-defined data definitions were not available to allow for data to be collected consistently.

**Planned and reported indicators are not verifiable (Measurability)**

48. For the selected development priorities and objectives, valid performance management processes and systems that produce actual performance against the planned indicators do not exist for 65% of the indicators.

### **Reliability of information**

49. The following criteria are relevant to the findings below:

- Validity: Actual reported performance has occurred and pertains to the entity
- Accuracy: Amounts, numbers and other data relating to reported actual performance have been recorded and reported appropriately
- Completeness: All actual results and events that should have been recorded have been included in the annual performance report

50. Audit findings:

**The validity, accuracy and completeness of reported performance against indicators and targets could not be confirmed as no supporting source information was provided (Reliability)**

51. For the selected development priorities and objectives, the validity, accuracy and completeness of 42% of the reported indicators/targets could not be established as sufficient appropriate audit evidence and/or relevant source documentation could not be provided.

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### **Compliance with laws and regulations**

#### **Budget**

52. The Alfred Nzo District Municipality (municipality) incurred expenditure that was not budgeted for and expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

#### **Annual financial statements, performance and annual report**

53. The municipal council did not adopt an oversight report containing the council's comments on the annual report within two months from the date on which the 2010-11 annual report was tabled in the council as required by section 129(1) of the MFMA.

54. The accounting officer of the municipality did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

55. The financial statements submitted for auditing by the municipality were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of audit opinion.

#### **Audit committees**

56. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.

57. The audit committee did not perform the following as required by Municipal Planning and Performance Management Regulation 14:

- Meet at least twice during the financial year
- Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- Review the municipality's performance management system and make recommendations in this regard to the council of the municipality
- Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

#### **Internal audit**

58. Internal audit did not report to the audit committee of the municipality on matters relating to compliance with the MFMA, the DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.

59. The internal audit processes and procedures did not include assessments of the functionality of the municipality's performance management system and whether the system complied with the requirements of the Municipal Planning and Performance Management Regulation 14(1)(b)(i) and (ii).
60. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key performance indicators as well as general performance indicators, as required by Municipal Planning and Performance Management Regulation 14(1)(b)(iii).
61. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by Municipal Planning and Performance Management Regulation 14(1)(c).

#### **Procurement and contract management**

62. Goods and services of the municipality and the Alfred Nzo Development Agency (municipal entity) with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
63. Awards were made by the municipality and municipal entity to providers whose tax matters had not been declared by the South African Revenue Services (SARS) to be in order, as required by SCM regulation 43, and sufficient appropriate audit evidence could not be obtained that awards of the municipal entity were made to providers whose tax matters have been declared by the SARS to be in order as required by SCM regulation 43.
64. Awards were made by the municipality to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state, contrary to Municipal SCM regulation 13(c).
65. Awards were made by the municipality to suppliers who did not score the highest points in the evaluation process, contrary to section 2(1)(f) of Preferential Procurement Policy Framework Act, or sufficient appropriate audit evidence could not be obtained that awards were made to suppliers who scored the highest points in the evaluation process as per the requirements of section 2(1)(f) of Preferential Procurement Policy Framework Act.
66. Awards were made by the municipality to providers who are persons in service of other state institutions or whose directors or principal shareholders are persons in service of other state institutions, in contravention of the requirements of SCM regulations 44. Furthermore, the providers failed to declare that they were in the service of the state, as required by SCM regulation 13(c).
67. Awards were made by the municipality to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
68. Goods and services of the municipality and the municipal entity of a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM regulation 19(a) and 36(1).

### **Expenditure management**

69. The accounting officer of the municipality and the municipal entity did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
70. The municipality did not recover unauthorised, irregular or fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the MFMA.
71. Money owing by the municipality and the municipal entity was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

### **Revenue management**

72. Interest was not charged on all arrears accounts of the municipality, as required by section 64(2)(g) of the MFMA, and sufficient audit evidence could not be obtained that interest was charged on all arrears accounts as required by section 64(2)(g) of the MFMA.
73. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA and revenue received by the municipal entity was not always reconciled at least on a monthly basis, as required by section 98(a) of the MFMA.
74. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it is earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

### **Asset management**

75. The accounting officer of the municipality did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.
76. The accounting officer of the municipality did not take all reasonable steps to ensure that the municipality had and maintained an effective system of internal control for assets (including an asset register) as required by section 63(2) (c) of the MFMA.

### **Name of company**

77. The accounting officer of the municipal entity did not ensure that the name of the municipal entity was changed to that of a state-owned company (SOC Ltd) to comply with section 11(3)(c)(iv) of the Companies Act.

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### **INTERNAL CONTROL**

In terms of *General Notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, we considered internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

78. The accounting officer did not ensure that the consolidated and separate financial statements and report on predetermined objectives were adequately reviewed by relevant stakeholders before submission for audit resulting in material misstatements being identified during the audit process.
79. The accounting officer did not ensure that the municipality adheres to all laws and regulations including MFMA and SCM regulations, resulting in numerous findings relating to non-compliance with laws and regulations.
80. Even though there are policies in place, the accounting officer did not ensure that there are documented procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities. As a result, there were findings relating to control deficiencies.
81. The accounting officer has not implemented effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored in the finance section. As a result, a consultant that was contracted to prepare the annual financial statements and ensure compliance with GRAP 17, almost took over the finance section and passed significant number of journals to correct the errors that were made during the year.
82. The accounting officer has not developed and monitored the implementation of action plans to address internal control deficiencies including weaknesses in IT environment and IT governance and findings from prior year reported matters. As a result, these findings are still reflected in the current year audit.

## **Financial and performance management**

83. The accounting officer and the officials responsible for financial and performance reporting have not implemented proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. As a result, not all documentation supporting the annual financial statements and report on predetermined objectives was submitted for audit. A number of journals were passed by management and a consultant contracted to prepare annual financial statements but no supporting documentation was attached to these journals.
84. The accounting officer has not implemented controls over daily and monthly processing and reconciling of transactions, therefore at year-end the municipality was not up-to-date with the monthly reconciliation. Numerous findings were identified where transactions were recorded in wrong accounts or recorded inclusive of VAT.
85. The accounting officer and officials responsible for financial and performance reporting did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. As a result, the material findings identified during the audit and by the consultant contracted to prepare annual financial statements could not be detected in time by management.
86. Management does not review and monitor compliance with applicable laws and regulations. Furthermore, there is no checklist designed to ensure compliance with applicable laws and regulations, resulting in various findings of non-compliance with laws and regulations.

87. The IT manager did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information. As a result, the trial balance that was submitted for audit did not balance, and during the year the system malfunctioned resulting in duplication of transactions and various other system errors.

### **Governance**

88. The audit committee did not review the financial statements and advise council of the municipality of the adequacy, reliability and accuracy of financial reporting and information as required by MFMA. As a result, the financial statements submitted for audit did not balance, were not supported by trial balance and were not accurate. Management subsequently made significant adjustments to these financial statements.

89. The audit committee did not review quarterly reports of the internal auditors on their audits of the performance measurements of the municipality, and did not review the municipality's performance management system and make recommendations in this regard to the council. As a result there were significant findings relating to the report on predetermined objectives.

90. The audit committee and risk management unit have not implemented appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

91. The audit committee did not ensure that an adequately resourced and functioning internal audit unit was in place to identify internal control deficiencies and recommend corrective action because internal audit did not perform all the assignments as per the annual plan.

*Auditor-General*

East London

12 December 2011



*Auditing to build public confidence*